

CITY OF KITTITAS
Kittitas County, Washington
January 1, 1991 Through December 31, 1992

Schedule Of Findings

1. The City Should Improve Internal Controls To Facilitate The Maintenance Of Current, Accurate, And Complete Accounting Records For The City

As noted in our last three audits covering the years 1986 through 1990, the audit reports indicated material internal control weaknesses in the cash receipts, cash disbursements, payroll, general ledger, and journal entry systems. The same conditions existed for the 1991 audit period. It appears that several of these weaknesses were corrected in 1992, however, the clerk-treasurer was not performing, nor has management enforced, timely and appropriate reconciliations between the various financial records.

The following are the weaknesses which were not corrected for the 1992 financial report:

a. Cash Receipts

- (1) The clerk-treasurer did not prepare or reconcile each day's revenues onto a daily treasurer's receipt.
- (2) Deposits were not prepared or reconciled to the daily treasurer's receipts, nor did the clerk-treasurer post these daily deposits to the city's check register or reconcile them to the underlying accounting records.

b. Cash Disbursements

- (1) Vouchers were not supported with the proper documentation, such as original invoices.
- (2) Vouchers approved for payment did not always agree in amount to the voucher number in expenditure book.
- (3) Vouchers approved for payment were not posted to the check register in a timely manner.
- (4) Several of the vouchers were incorrectly filed or could not be found.
- (5) The check register did not show a current bank balance.
- (6) Bank reconciliations were not performed timely. Discrepancies were researched and corrected several months later.
- (7) Management did not review the accounting records or reconciliations to determine whether the proper postings and reconciliations had been performed.

c. Payroll Records

(1) See Finding 7.

(2) See Finding 8.

(3) Personnel files were not organized and did not contain the appropriate documentation. At a minimum, the files should contain: job descriptions; date of hire; wage rates, including effective dates; special deductions; current vacation and sick leave records; and any other information the city deems necessary.

d. General Ledger And Journal Entries

(1) Investment ledgers were not implemented or maintained on the investment and savings activities.

(2) Management did not review the accounting records to determine whether the proper postings and reconciliations had been performed.

RCW 43.09.200 states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for accounts of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction

To satisfy the requirements of RCW 43.09.200, the city's accounting system must include adequate internal controls. The American Institute of Certified Public Accountants (AICPA) *Statement of Auditing Standards*, Section 319.69(2) states:

Establishing and maintaining an internal control structure is an important management responsibility. In establishing specific internal control structure policies and procedures concerning an entity's ability to record, process, summarize, and report financial data that is consistent with management's assertions embodied in the financial statements, some of the specific objectives management may wish to consider include the following:

- a. Transactions are executed in accordance with management's general and specific authorization.
- b. Transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (2) to maintain accountability for assets.
- c. Access to assets is permitted only in accordance with managements authorizations.

- d. The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to differences.

Due to the internal control weaknesses noted above, the 1991 financial statements submitted for audit were determined inaccurate and incomplete. This precludes users of the financial statements to place any integrity on the accounting records. In 1992, various weaknesses were corrected, however, the untimely posting and reconciliations of the financial data creates the possibility of errors and irregularities to occur and not be detected in a timely manner.

We again recommend the clerk-treasurer and management improve internal control procedures to enable the establishment and maintenance of current, accurate and complete accounting records.

2. Budgeting Procedures Should Be In Compliance With State And Local Laws

As noted in our last three audits, covering the years 1986 through 1990, we reported that the city should limit their expenditures to appropriations. During the current audit period, this was not corrected and the following items were also noted:

- a. A budget message was not included in the approved budgets.

RCW 35A.33.055 states in part:

In every code city a budget message prepared by or under the direction of the city's chief administrative officer shall be submitted as a part of the preliminary budget to the city's legislative body . . . and shall contain the following:

- (1) An explanation of the budget document;
- (2) An outline of the recommended financial policies and programs of the city for the ensuing fiscal year;
- (3) A statement of the relation of the recommended appropriation to such policies and programs;
- (4) A statement of reason for salient changes from the previous year in appropriation and revenue items;
- (5) An explanation for any recommended major changes in financial policy.

- b. Budgets were not approved for all required departments/funds.
- c. The city council did not participate in the preparation of the annual budgets. This was done entirely by the mayor of the city.
- d. The budgets which were approved did not balance.

RCW 35A.33.050 states in part:

. . . the clerk or other person designated by . . . ordinance . . . of the city shall submit to the chief administrative officer a proposed preliminary budget which shall set forth the complete financial program of the city for the ensuing fiscal year, showing the expenditure program requested by each department and the sources of revenue by which each such program is proposed to be financed.

- e. Budget amendments were approved six months after the year end.
- f. Budgets were not monitored by department heads or the city council.
- g. Budgets were not properly documented in the city's annual reports.

City officials did not monitor the accounting records and budgets maintained by the clerk-treasurer. This impedes management from being fiscally responsible over the city's financial records and activities.

We recommend that the city officials take an active role in preparing a complete and accurate budget document. We are again recommending that the city officials monitor the city's accounting records and budgets in order to limit expenditures to budget appropriations.

3. Water/Sewer Accounts Receivable Control Totals Should Be Established, Maintained, And Reviewed In A Timely Manner

In our last three audits for the years 1986 through 1990, we recommended that the city implement and maintain a control ledger on the water/sewer accounts receivable system. During the current audit of 1991 through 1992, we are again reporting that the city has not taken steps to maintain and review the accounts receivable control ledger.

In April of 1993, we were requested by the city to review the 1992 water/sewer accounts receivable system. During this review, we noted that the clerk-treasurer's personal September 1992 four-month delinquent account balance of \$136.75 did not carry forward to October's beginning balances. When questioned about this balance, the clerk-treasurer immediately paid the outstanding balance along with the penalties which would have been assessed through April 1993.

The concept of internal controls, as defined in the *Budgeting, Accounting and Reporting System* (BARS) manual, based on criteria established by the U.S. General Accounting Office, which states:

An internal control system consists of the plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained and fairly disclosed in the reports.

The ultimate responsibility for good internal controls rests with management.

Failure to maintain an accounts receivable control ledger results in significantly greater risk that errors and/or irregularities could occur and not be detected in a timely manner. In addition, additional procedures were necessary to provide assurances that the recorded revenues, charges and adjustments from the water/sewer accounts receivable system were accurate and complete.

RCW 43.09.200 states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt . . . necessary to isolate and prove the validity of every transaction

The clerk-treasurer maintains that the water/sewer accounts receivable system is inadequate and has corrupted many of the city files. The clerk-treasurer stated that she has done the best that she could given the resources supplied by the city.

We again recommend the city establish and maintain a complete and accurate control ledger on the individual water/sewer accounts receivable and that management review the progress of this implementation and maintenance.

4. Ordinance Requirements Should Be Imposed

In our 1989 through 1990 audit, we reported the city did not take action to enforce collections on accounts which were 60 days past due. This was not corrected in our 1990 through 1991 audit. Approximately five percent of the water\sewer accounts are four months or more past due.

City Ordinance No. 376 states in part:

The water superintendent of the city shall turn off water from any premise in the city in any case where the occupant thereof is delinquent in the payment of their water bill for sixty days, and in such event water shall not be turned on said premise again until the bill is paid in full, together with a charge of ten dollars for turning the same on.

RCW 35.21.290 states in part:

Cities and towns owning their own waterworks . . . shall have a lien against the premises to which water . . . is furnished for four months charges therefore due or become due, but not for any charges more than four months past due . . .

RCW 35.21.300 states in part:

(1) The lien for charges for services by a city waterworks . . . may be enforced only by cutting off the service until the delinquent and unpaid charges are paid.

Failure of city officials to enforce utility lien provisions, results in the loss of substantial utility income and may create noncompliance with bond covenants.

We again recommend that the city comply with the turn-off requirements per Ordinance No. 376 and enforce the lien provisions for the water/sewer utility system in accordance with RCWs 35.21.290 and 35.21.300.

5. The City Should Bill All Utility Customers In Accordance With Rate Schedules

During our 1989-90 audit, we noted instances where certain utility customers were not billed in accordance with the council approved rate schedule. For our 1991-92 audit, it also appears that several customers were not required to pay the entire hook-up balance prior to receiving water/sewer services.

These deficiencies are contrary to the provisions of Article VIII, Section 7 of the Washington State Constitution, which states in part:

. . . No . . . municipal corporation shall hereafter give money, or property, or loan its money, or credit to or in aid of any individual . . . except for the necessary support of the poor and infirm . . .

When the city does not enforce the utility rate schedules, the other utility customers are required to make up these deficiencies through user fee rate increases.

The city council has not and does not enforce the billings at the authorized rates.

We again recommend that the city charge all utility customers at the approved rate schedule.

6. The City Should Comply With The Requirements For Spending Criminal Justice Funding

In our audit of the criminal justice funding, we noted that the city is not in compliance with the funding requirements.

- a. Appropriations were not set for anticipated criminal justice funding or expenditures.
- b. Criminal justice expenditures were not in compliance with the *Budgeting, Accounting and Reporting System* (BARS) manual. Criminal justice funding was expended on such items as skunk, cat, and dog traps.

The BARS manual, Volume 1, Part 3, Chapter 12, page 31, states in part:

All of the moneys made available to local governments are limited to funding of criminal justice purposes. Criminal justice purposes can be defined as activities relating to the enforcement and administration of the criminal law. The term "Criminal justice purposes" indicates a broad definition which would encompass all cost incurred in connection with the administration and enforcement of criminal laws, including those systems for dealing with persons suspected of, accused of, charged with, or convicted of crimes and domestic violence services.

Criminal justice revenues shall be expended exclusively for criminal purposes and shall not be used to replace or supplant existing funds.

The city employees do not have an understanding of how the criminal justice funding is to be monitored and expended. We have made written recommendations in the past audits, however, the city has not complied with these requirements.

If the city does not comply with state rules and regulations in accounting for criminal justice funds, the city may be required to pay back the funding received.

We recommend the city comply with BARS requirements for accounting and spending of criminal justice funding.

7. The City Should Establish And Comply With Payroll Policies And Procedures

As noted in our audit of 1989-90, the city did not have adequate payroll policies and procedures for all departments. We again noted various problems with record keeping (or lack thereof) and inconsistent procedures for vacation, sick, holiday, and compensatory time.

The prior mayor required each employee to track their vacation, sick, holiday, and compensatory time. At the end of each year the mayor requested from each employee a listing of their leave balances. The mayor would then sign off on these balances and the amounts were carried forward to the next year.

RCW 43.09.200 states in part.:

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The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and amounts due and received from each source; all receipts, vouchers and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction

The lack of policies and procedures inhibits accountability and the determination of the city's liability for compensated absences. Furthermore, we believe the lack of policies and procedures could result in irregularities. We consider this to be a material reportable condition.

We recommend the city council establish complete payroll policies and procedures and comply with these policies and procedures. We also recommend that vacation, sick, holiday, and compensatory time be approved and tracked by the appropriate personnel.

8. Payroll Expenditure Allocation Should Be Based On Actual Time Records

As noted in our 1989-90 audit report, allocation of the payroll expenditures were not supported with the proper documentation. During the 1991-92 audit, we also noted that no review is performed on the employees' time cards and the clerk-treasurer was not using the time cards to pay the hourly employees.

RCW 43.09.210 states in part:

Separate accounts shall be kept for every appropriation or fund of a taxing or legislative body showing date and manner of each payment made therefrom the name, address, vocation of each person, organization, corporation, or association to whom paid, and/or to what purpose paid . . . All service rendered by, or property transferred from, one department, public improvement, undertaking, institution, or public service industry to another, shall be paid for at its true and full value by the department . . . receiving the same . . . and no department shall benefit in any financial manner whatever by the appropriation or fund made for the support of another.

Without proper documentation, there is no reliable basis for allocation of the payroll expenditures.

The city has been made aware of these requirements for the past few years, however, changes have not been made to comply with these requirements.

We again recommend that employees who perform services for the benefit of more than one department or fund should document their efforts to provide a basis for allocation of payroll expenditures. We also recommend appropriate personnel review time summaries and that the clerk-treasurer pay the employees from these time summaries.

9. The City Should Comply With The Open Public Meetings Act

During our review of the city's official minutes, we noted several deficiencies:

- a. Official records were not kept of all regular meetings, special meetings, and study session.
- b. Several months of minutes were missing.
- c. Prior to executive sessions, the council did not state purpose or duration of meetings.
- d. Decisions were approved in executive sessions.

RCW 42.32.030 states:

The minutes of all regular and special meetings except executive sessions of such boards, commissions, agencies, or authorities shall be promptly recorded and such records shall be open to public inspection.

RCW 42.30.100 states in part:

Before convening in executive session, the presiding officer of the governing body shall publicly announce the purpose for excluding the public from the meeting place, and the time when the executive session will be concluded. The executive session may be extended to a stated later time by announcement of the presiding officer.

Per RCW 42.30.100, executive sessions are designed to consider and evaluate certain legal and personnel matters and not to be used to approve decisions without public participation.

By not having available to the public the official records of the city meetings and making decisions in executive sessions, the public is denied the opportunity to review and respond to the actions of the city council.

The clerk-treasurer stated that she kept the official records on the computer and printed hard copies when the public requested to review the proceedings. During the 1991-92 audit period, the clerk-treasurer was unable to retrieve, from the computer, the minutes requested.

The council members are aware of the executive session requirements but prefer not to comply.

We recommend the city comply with RCW 42.30.100, Open Public Meetings Act.